

ROPER INDUSTRIES INC /DE/  
Form 10-Q  
August 09, 2007

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the quarterly period ended June 30, 2007.

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the transition period from \_\_\_\_ to \_\_\_\_ .

Commission File Number 1-12273

**ROPER INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**51-0263969**

(I.R.S. Employer Identification No.)

**6901 Professional Pkwy. East, Suite 200**

**Sarasota, Florida**

(Address of principal executive offices)

**34240**

(Zip Code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated file  Accelerated filer  Non-accelerated filer

Indicate by check mark if the registrant is a shell company (as defined in Rule 12-b2 of the Act).  Yes  No

The number of shares outstanding of the Registrant's common stock as of August 3, 2007 was approximately 88,574,616.



**ROPER INDUSTRIES, INC.**

**REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2007**

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**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Roper Industries, Inc. and Subsidiaries****Condensed Consolidated Statement of Earnings (unaudited)**

(in thousands, except for per share data)

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Net sales	\$ 530,636	\$ 425,310	\$ 1,009,063	\$ 808,033
Cost of sales	268,241	210,427	508,520	400,753
Gross profit	262,395	214,883	500,543	407,280
Selling, general and administrative expenses	154,439	129,491	299,736	254,412
Income from operations	107,956	85,392	200,807	152,868
Interest expense	13,366	11,313	26,838	22,112
Other income/(expense)	(1,230)	(31)	(1,480)	(159)
Earnings before income taxes	93,360	74,048	172,489	130,597
Income taxes	32,131	25,955	59,826	44,818
Net earnings	\$ 61,229	\$ 48,093	\$ 112,663	\$ 85,779
Net earnings per share:				
Basic	\$ 0.69	\$ 0.55	\$ 1.28	\$ 0.99
Diluted	0.66	0.53	1.21	0.95
Weighted average common shares outstanding:				
Basic	88,359	86,919	88,139	86,492
Diluted	92,915	91,043	92,851	90,350
Dividends declared per common share	\$ 0.06500	\$ 0.05875	\$ 0.13000	\$ 0.11750

See accompanying notes to condensed consolidated financial statements.



**Roper Industries, Inc. and Subsidiaries****Condensed Consolidated Balance Sheets (unaudited)**

(in thousands)

	June 30, 2007	December 31, 2006
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 120,104	\$ 69,478
Accounts receivable, net	330,824	324,514
Inventories	181,304	168,319
Deferred taxes	19,173	17,908
Other current assets	71,348	47,276
Total current assets	722,753	627,495
Property, plant and equipment, net	105,524	107,003
Goodwill	1,690,391	1,651,208
Other intangible assets, net	614,607	544,136
Deferred taxes	25,700	21,702
Other noncurrent assets	45,330	43,815
Total assets	\$ 3,204,305	\$ 2,995,359
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>		
Accounts payable	\$ 102,684	\$ 96,139
Accrued liabilities	174,760	184,148
Income taxes payable	9,173	5,896
Deferred taxes	1,035	1,555
Current portion of long-term debt	314,264	299,911
Total current liabilities	601,916	587,649
Long-term debt	736,016	726,881
Deferred taxes	198,104	169,994
Other liabilities	44,856	23,996
Total liabilities	1,580,892	1,508,520
Commitments and contingencies		
Common stock	908	900
Additional paid-in capital	740,333	717,751
Retained earnings	819,718	721,899
Accumulated other comprehensive earnings	84,638	68,666
Treasury stock	(22,184 )	(22,377)
Total stockholders' equity	1,623,413	1,486,839
Total liabilities and stockholders' equity	\$ 3,204,305	\$ 2,995,359

See accompanying notes to condensed consolidated financial statements.



**Roper Industries, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows (unaudited)**

(in thousands)

	Six months ended June 30,	
	2007	2006
Cash flows from operating activities:		
Net earnings	\$ 112,663	\$ 85,779
Depreciation	15,685	13,927
Amortization	30,587	25,536
Income taxes	8,625	13,102
Other, net	(32,008)	(32,588)
Cash provided by operating activities	135,552	105,756
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(100,761)	(63,454)
Capital expenditures	(12,725)	(16,807)
Other, net	(2,759)	(870)
Cash used in investing activities	(116,245)	(81,131)
Cash flows from financing activities:		
Term note payments	(32,751)	(16,376)
Debt borrowings/( payments), net	56,372	(12,946)
Dividends	(11,437)	(10,189)
Excess windfall tax benefit	5,458	2,483
Proceeds from exercise of stock options	10,602	10,123
Other, net	938	808
Cash provided/(used) by financing activities	29,182	(26,097)
Effect of foreign currency exchange rate changes on cash	2,137	1,739
Net increase in cash and cash equivalents	50,626	267
Cash and cash equivalents, beginning of period	69,478	53,116
Cash and cash equivalents, end of period	\$ 120,104	\$ 53,383

See accompanying notes to condensed consolidated financial statements.

**Roper Industries, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Changes in Stockholders' Equity (unaudited)**  
**(in thousands)**

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive earnings	Treasury stock	Total
Balances at December 31, 2006	\$ 900	\$ 717,751	\$ 721,899	\$ 68,666	\$ (22,377)	\$ 1,486,839
Adjustment to adopt FASB Interpretation No. 48	-	-	(3,349)	-	-	(3,349)
Net earnings	-	-	112,663	-	-	112,663
Stock option exercises	7	10,800	-	-	-	10,807
Treasury stock transactions	-	745	-	-	193	938
Currency translation adjustments, net of						
\$4,460 tax	-	-	-	16,911	-	16,911
Unrealized gain on derivative, shown net of						
\$(506) tax	-	-	-	(939)	-	(939)
Stock based compensation	-	9,720	-	-	-	9,720
Restricted stock grants	1	(2,973)	-	-	-	(2,972)
Stock option tax benefit	-	4,290	-	-	-	4,290
Dividends declared	-	-	(11,495)	-	-	(11,495)
Balances at June 30, 2007	\$ 908	\$ 740,333	\$ 819,718	\$ 84,638	\$ (22,184)	\$ 1,623,413

See accompanying notes to condensed consolidated financial statements

**Roper Industries, Inc. and Subsidiaries****Notes to Condensed Consolidated Financial Statements (unaudited)****June 30, 2007****1. Basis of Presentation**

The accompanying condensed consolidated financial statements for the three-month and six-month periods ended June 30, 2007 and 2006 are unaudited. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, which include only normal recurring adjustments, necessary to state fairly the financial position, results of operations and cash flows of Roper Industries, Inc. and its subsidiaries (“Roper” or the “Company”) for all periods presented.

Roper’s management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”). Actual results could differ from those estimates.

The results of operations for the three-month and six-month periods ended June 30, 2007 are not necessarily indicative of the results to be expected for the full year. You should read these unaudited condensed consolidated financial statements in conjunction with Roper’s consolidated financial statements and the notes thereto included in its 2006 Annual Report on Form 10-K filed March 1, 2007 with the Securities and Exchange Commission (“SEC”).

**2. Earnings Per Share**

Basic earnings per share were calculated using net earnings and the weighted average number of shares of common stock outstanding during the respective period. Diluted earnings per share were calculated using net earnings and the weighted average number of shares of common stock and potential common stock outstanding during the respective period. For the three and six month periods ended June 30, 2007, there were 7,500 and 248,500 outstanding stock options, respectively, that were not included in the determination of diluted earnings per share because doing so would have been antidilutive. For the three and six month periods ending June 30, 2006, there were 60,000 outstanding stock options that were not included in the determination of diluted earnings per share because doing so would have been antidilutive. Potentially dilutive common stock consisted of stock options, restricted stock awards and the premium over the conversion price on our senior subordinated convertible notes based upon the trading price of the Company’s common stock. The effects of potential common stock were determined using the treasury stock method (in thousands).

	Three months ended June 30,		Six months ended June 30,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Basic shares outstanding	88,359	86,919	88,139	86,492
Effect of potential common stock				
Common stock awards	1,414	1,780	1,450	1,755
Senior subordinated convertible notes	3,142	2,344	2,992	2,103

Diluted shares outstanding	92,915	91,043	92,581	90,350
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### 3. Stock Based Compensation

Roper Industries, Inc. 2006 Incentive Plan (“2006 Plan”) provides for the granting of incentive stock options, nonqualified stock options, restricted stock, stock appreciation rights or equivalent instruments to the Company’s employees, officers, directors and consultants. Roper has never issued stock awards other than those issued to employees or its non-employee directors.

Roper's Employee Stock Purchase Plan allows U.S. and Canada employees to designate up to 10% of eligible earnings to purchase Roper's common stock at a 10% discount to the average closing price of its common stock at the beginning and end of a quarterly offering period. The common stock sold to the employees may be either treasury stock, stock purchased on the open market, or newly issued shares.

The Company recognized stock based compensation expense of \$5.1 million and \$3.5 million for the three months ended June 30, 2007 and 2006, respectively, and \$9.7 million and \$7.1 million for the six months ended June 30, 2007 and 2006, respectively. The total tax effect recognized in net income related to stock based compensation for the six months ended June 30, 2007 and 2006 was \$3.4 million and \$2.5 million, respectively. The actual tax benefit realized for the tax deductions from option exercises and restricted stock vesting under all plans totaled approximately \$4.3 million and \$3.5 million, respectively, for the six months ended June 30, 2007 and 2006.

**Stock Options** - In the six months ended June 30, 2007, 521,000 options were granted with a weighted average fair value of \$13.66. During the same period in 2006, 425,800 options were granted with a weighted average fair value of \$13.64. All options were issued at grant date fair value.

The Company records compensation expense for employee stock options based on the estimated fair value of the options on the date of grant using the Black-Scholes option-pricing model with the assumptions included in the table below. The Company uses historical data among other factors to estimate the expected price volatility, the expected dividend yield, the expected option life and the expected forfeiture rate. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for the estimated life of the option. The following weighted average assumptions were used to estimate the fair value of options granted during the six months ended June 30, 2007 using the Black-Scholes option-pricing model:

Fair value per share (\$)	13.66
Risk-free interest rate (%)	4.71
Expected option life (years)	4.5
Expected volatility (%)	20.93
Expected dividend yield (%)	0.50

Cash received from option exercises for the six months ended June 30, 2007 and 2006 was approximately \$10.6 million and \$10.1 million, respectively.

**Restricted Stock Awards** - During the six months ended June 30, 2007, the Company granted 227,015 shares of restricted stock with a weighted average fair value of \$52.19. During the same period in 2006, 216,000 shares were granted with a weighted average fair value of \$43.35. All grants were issued at grant date fair value.

During the six months ended June 30, 2007, 187,390 restricted shares vested with a weighted average grant date fair value of \$38.24, at a weighted average vest date fair value of \$53.26.

**Employee Stock Purchase Plan** - During the six months ended June 30, 2007 and 2006, participants of the employee stock purchase plan purchased 19,458 and 19,633 shares, respectively, of Roper's common stock for total consideration of \$0.94 million and \$0.81 million, respectively. All shares were purchased from Roper's treasury shares.

#### 4. Comprehensive Earnings

Comprehensive earnings include net earnings and all other non-owner sources of changes in net assets. Comprehensive earnings (in thousands) for the three months ended June 30, 2007 and 2006 were \$76,335 and \$60,458, respectively, and \$128,635 and \$101,758 for the six months ended June 30, 2007 and 2006, respectively. The differences between net earnings and comprehensive earnings were currency translation adjustments and unrealized gains on interest rate swaps accounted for under hedge accounting, net of tax.

#### 5. Inventories

	June 30, 2007	December 31, 2006
	(in thousands)	
Raw materials and supplies	\$ 117,430	\$ 114,131
Work in process	29,999	27,617
Finished products	62,978	53,919
Inventory reserves	(29,103)	(27,348)
	\$ 181,304	\$ 168,319

#### 6. Goodwill

	<u>Industrial Technology</u>	<u>Energy Systems &amp; Controls</u>	<u>Scientific &amp; Industrial Imaging</u>	<u>RF Technology</u>	<u>Total</u>
	(in thousands)				
Balances at December 31, 2006	\$ 428,290	\$ 364,548	\$ 393,776	\$ 464,594	\$ 1,651,208
Additions	-	50,774	5,733	-	56,507
Other	-	(32,804)	-	584	(32,220)
Currency translation adjustments	5,477	3,328	4,217	1,874	14,896
Balances at June 30, 2007	\$ 433,767	\$ 385,846	\$ 403,726	\$ 467,052	\$ 1,690,391

Other primarily represents purchase price allocation adjustments for Dynisco, which was purchased on November 30, 2006.

**7. Other intangible assets, net**

	<u>Cost</u>	Accumulated <u>amortization</u> (in thousands)	Net book <u>value</u>
Assets subject to amortization:			
Customer related intangibles	\$ 414,524	\$ (62,553)	\$ 351,971
Software	56,465	(17,869)	38,596
Patents and other protective rights	26,709	(13,205)	13,504
Trade secrets	4,114	(2,621)	1,493
Unpatented technology	31,571	(8,928)	22,643
Backlog	19,460	(9,198)	10,262
Assets not subject to amortization:			
Trade names	105,667	-	105,667
Balances at December 31, 2006	\$ 658,510	\$ (114,374)	\$ 544,136
Assets subject to amortization:			
Customer related intangibles	\$ 490,351	\$ (77,609)	\$ 412,742
Software	53,669	(20,919)	32,750
Patents and other protective rights	51,612	(17,968)	33,644
Trade secrets	8,353	(3,533)	4,820
Unpatented technology	32,917	(11,582)	21,335
Backlog	16,508	(11,194)	5,314
Assets not subject to amortization:			
Trade names	104,002	-	104,002
Balances at June 30, 2007	\$ 757,412	\$ (142,805)	\$ 614,607

The increase in intangible assets during the six months ended June 30, 2007 related to the acquisitions of JLT, DJ Instruments, Roda Deaco, and Dynamic Instruments as well as a revised allocation of the intangible assets of Dynisco, purchased in November 2006. The revised allocation resulted in a \$60 million increase in intangible assets, and a corresponding decrease in goodwill.

Amortization expense of other intangible assets was \$28,431 and \$23,748 during the six months ended June 30, 2007 and 2006, respectively.

**8. Contingencies**

Roper, in the ordinary course of business, is the subject of, or a party to, various pending or threatened legal actions, including those pertaining to product liability and employment practices. It is vigorously contesting all lawsuits that, in general, are based upon claims of the kind that have been customary over the past several years. After analyzing the Company's contingent liabilities on a gross basis and, based upon past experience with resolution of its product liability and employment practices claims and the limits of the primary, excess, and umbrella liability insurance coverages that are available with respect to pending claims, management believes that adequate provision has been made to cover any potential liability not covered by insurance, and that the ultimate liability, if any, arising from these actions should not have a material adverse effect on the consolidated financial position, results of operations or cash flows of Roper.

Over recent years there has been a significant increase in certain U.S. states in asbestos-related litigation claims against numerous industrial companies. Roper or its subsidiaries have been named defendants in some such cases. No significant resources have been required by Roper to respond to these cases and Roper believes it has valid defenses to such claims and, if required, intends to defend them vigorously. Given the state of these claims it is not possible to determine the potential liability, if any.

The Company's financial statements include accruals for potential product liability and warranty claims based on the Company's claims experience. Such costs are accrued at the time revenue is recognized. A summary of the Company's

warranty accrual activity for the six months ended June 30, 2007 is presented below (in thousands).

Balance at December 31, 2006	\$ 7,632
Additions charged to costs and expenses	3,388
Deductions	(2,911)
Other	274
Balance at June 30, 2007	\$ 8,383

## 9. Industry Segments

Sales and operating profit by industry segment are set forth in the following table (dollars in thousands):

	Three months ended June 30,			Six months ended June 30,		
	2007	2006	Change	2007	2006	Change
Net sales:						
Industrial Technology	\$ 161,333	\$ 136,783	17.9%	\$ 315,839	\$ 261,580	20.7%
Energy Systems & Controls	126,036	75,915	66.0	230,011	144,624	59.0
Scientific & Industrial Imaging	93,683	85,644	9.4	185,711	166,422	11.6
RF Technology	149,584	126,968	17.8	277,502	235,407	17.9
Total	\$ 530,636	\$ 425,310	24.8%	\$ 1,009,063	\$ 808,033	24.9%
Gross profit:						
Industrial Technology	\$ 76,584	\$ 65,668	16.6%	\$ 150,013	\$ 126,526	18.6%
Energy Systems & Controls	66,809	41,641	60.4	120,252	77,664	54.8